

Message Text

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PAGE 01 TEGUCI 02622 192006Z

64

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SUBJECT: ECONOMIC DEVELOPMENTS, HONDURAS, FIRST QUARTER 1975

REF: TEGUCIGALPA A-58, A-59, A-60

SUMMARY: HONDURAN ECONOMIC PERFORMANCE IN THE FIRST QUARTER OF 1975 WITH EMPHASIS UPON MONETARY POLICY HAS BEEN ANALYZED BY THE CENTRAL BANK. USING AS A BASE THE ECONOMIC PROGRAM DEVELOPED AFTER MEETINGS WITH THE INTERNATIONAL FINANCIAL INSTITUTIONS, THE FIRST QUARTER RESULTS ARE GENERALLY BELOW EXPECTATIONS OF GROWTH, EXPORTS, IMPORTS, PUBLIC AND PRIVATE INVESTMENT AND FISCAL BALANCES. THE OVERALL VIEW IS OF A DEPRESSED ECONOMY WHICH, NONETHELESS, IS UTILIZING HEAVY BORROWING FROM ABROAD TO PREVENT AN EVEN LOWER NEGATIVE RATE GROWTH. THE SPECIAL FACTOR OF THE DESTRUCTION CAUSED BY HURRICANE FIFI PERMEATES BOTH PLANNING AND EXPECTATIONS. A SECOND HALF IMPROVEMENT IN EXPORTS COULD WEIGH HEAVILY. END SUMMARY.;

1. IN AN EXAMINATION OF FIRST QUARTER 1975 RESULTS AS COMPARED WITH THE HONDURAN MONETARY PROGRAM, THE CENTRAL BANK HAS ANALYZED TRENDS AND MADE MONETARY ADJUSTMENTS.

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PAGE 02 TEGUCI 02622 192006Z

2. THE TRENDS, WITH EXPECTATIONS IN PARENTHESES:

GNP -3 PERCENT (-3 PERCENT), EXPORTS -8.2 PERCENT (2 PERCENT),
IMPORTS -12 PERCENT (-4 PERCENT), IMPORTS, IN REAL PRICES
-19.3 PERCENT (-15 PERCENT,

3. BALANCE OF PAYMENTS (U.S.): DEFICIT 162 MILLION

(162 MILLION), INTERNATIONAL TRANSFERS 219 MILLION (178 MIL-
LION), CHANGE IN RESERVES PLUS 13 MILLION (PLUS 32 MILLION),

4. FISCAL DATA (U.S.): INCOME, FIRST QUARTER 25.9 MILLION

(27.0 MILLION), ANNUAL RATE 130 MILLION (DOWN 8 PERCENT),
EXPENDITURES 175 MILLION OF WHICH CAPITAL IS 70.2 MILLION.
FISCAL DEFICIT NOW ANTICIPATED AT 45 MILLION (30 MILLION),

5. OTHER INDICATORS: INFLATION 12 PERCENT (12 PERCENT),

PUBLIC INVESTMENT 28 PERCENT INCREASE OVER SAME PERIOD OF
1974 (40 PERCENT), PRIVATE INVESTMENT 22 PERCENT (22 PERCENT).
PEAL SALES -7 PERCENT FIRST QUARTER RATE. SAVINGS 1.4 PER-
CENT RATE AS COMPARED TO 6.6 PERCENT IN 1974 FIRST QUARTER.
IN GENERAL PRIVATE SECTOR SAVINGS ARE LOW, EXPORTS ARE OFF
WITH EFFECTS UPON GENERAL ACTIVITY. PLANNED LEVELS OF
GOVERNMENT INVESTMENT EXPECTED TO RUN BETWEEN 70 AND
80 PERCENT OF TARGETED LEVEL. PRIMARY CAUSE IS INABILITY TO
IMPLEMENT PROJECTS. PRIVATE SECTOR INVESTMENT LOWER THAN
ANTICIPATED EXCEPTING CONSTRUCTION AND SUGAR SECTORS.

6. RESPONSE BY THE CENTRAL BANK TO THE ABOVE TRENDS HAS
BEEN TO UTILIZE SOME EXTERNAL BORROWING FOR BUDGETARY
RELIEF AND REDUCE INTERNAL BORROWING FROM THE PRIVATE BANKING
SECTOR. THE BUDGETED LEVEL OF INVESTMENT WILL REACH ONLY
70 PERCENT IN ACTUAL EXPENDITURES. FURTHER LINES OF CREDIT FOR
THE ACTIVE CONSTRUCTION INDUSTRY WILL BE MADE AVAILABLE
AS WILL BE COMMERCIAL BANK REDISCOUNT FACILITIES. PRIORITY
AMONG EXECUTABLE INVESTMENT PROJECTS WILL BE GIVEN TO THOSE

OF HIGH VALUE ADDED.

7. EMBASSY DISCUSSIONS WITH COMMERCIAL BANKERS INDICATE
WILLING ACCEPTANCE ON THE PART OF THIS SECTOR OF CENTRAL BANK
OPERATIONS IN RESPONSE TO FIRST QUARTER TRENDS. HIGHER
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PAGE 03 TEGUCI 02622 192006Z

REDISCOUNTS AND LOWER CENTRAL BANK BORROWING WILL PERMIT
STRONGER COMMERCIAL BANK OPERATIONS IN COMING MONTHS.

8. COMMENT: WHILE IT IS APPARENT THAT RECONSTRUCTION AND
DEVELOPMENT EXPENDITURES ARE PROCEEDING, THE RATE IS BELOW
UNREALISTIC LEVELS PROGRAMMED. EXPORT PERFORMANCE HAS BEEN
WEAK IN WOOD, MEAT, AND, OF COURSE, BANANAS. BANANA
EXPORTS WILL INCREASE SHARPLY IN JULY REFLECTING NEW GROWTH

FOLLOWING FIFI HURRICAN DESTRUCTION. COFFEE HAS BEEN POSITIVE
EXPORT ELEMENT. THERE IS SOME OPTIMISM ON WOOD FOR THE
SECOND HALF, DEPENDING UPON WORLD DEMAND CONDITIONS, AND
STOCKS IN HONDURAS ARE HIGH,
OVERALL, IT APPEARS THAT INABILITY
TO MEET INVESTMENT PROGRAM OBJECTIVES HAS RESULTED IN A MORE
DEPRESSED LEVEL OF ACTIVITY THAN ANTICIPATED, REFLECTED IN TAX
RECEIPTS, IMPORTS, AND UNEMPLOYMENT (NO FIGURES GIVEN). NONE-
THELESS, THE CENTRAL BANK CONSIDERS THAT THE REAL DECLINE OF 3
PERCENT IN GNP WILL NOT BE EXCEEDED DUE TO CORRECTIVE MONETARY
MEASURES.
SOWASH

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